

Income-Equity

QUARTERLY REPORT 4Q 2024

MILLER/HOWARD'S INCOME-EQUITY portfolios are designed to produce high *and rising* income. How do we know if we are doing a good job? Tracking dividend yield over time does not answer the question because higher stock prices—a good thing—tend to depress dividend yields. In our view, two metrics best discern whether stock-picking is adding to portfolio income growth:

- The percentage of holdings that announce a dividend during the year
- The average size of dividend increases

Both metrics address buy-and-hold income growth, rather than the short-term income growth that can come from opportunistic trading or special dividends.

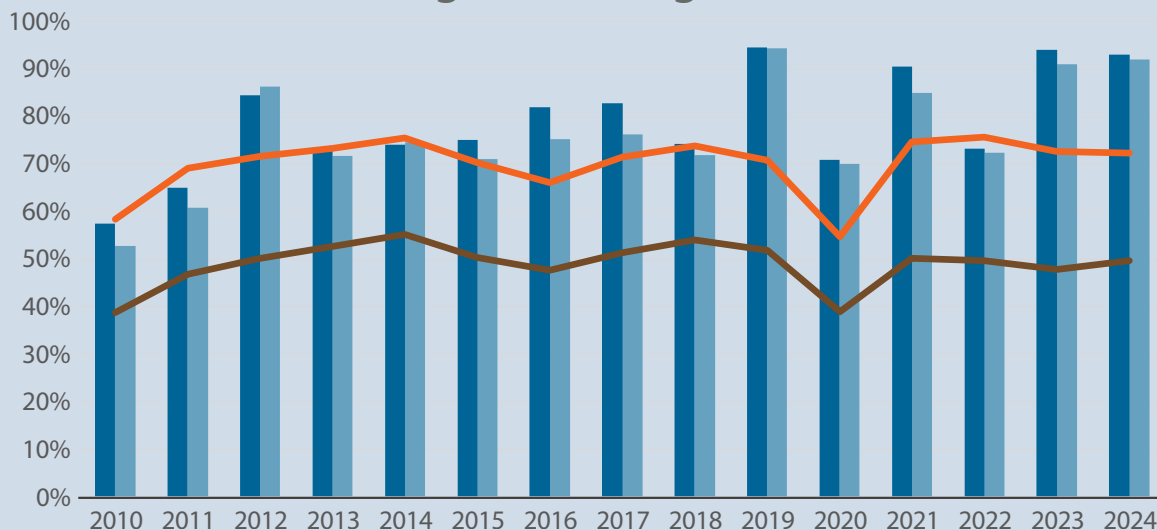
In 2024, over 90% of the holdings in both versions of Income-Equity announced dividend increases. In contrast, only 50% of the Russell 1000 Index constituents announced dividend increases during the year. If we focus just on Russell 1000 stocks that paid a dividend in 2023, only 72% of names announced an increase in 2024.

As we have argued in the past, using percentages to measure dividend increases is misleading because they can overstate the importance of changes off a small base. Take for example a dividend hike that takes a stock's yield from 1.0% to 1.2% versus an increase from 4.0% to 4.2%. The first increase is 20% versus 5% for the latter, but both would add the same dollar income to a client account. One way to avoid this is using bond conventions, and in these examples, both increases are 20 basis points.

In 2024, the average dividend increase for Income-Equity was 23 basis points and for Income-Equity (no MLPs) was 21 basis points. For Russell 1000 dividend payers the average dividend increase was only 5 basis points, less than a quarter of our Income-Equity results. We do not view this as a coincidence. As we showed in *Dividend Increases: The Underappreciated Tailwind* (our 4Q 2023 Quarterly Report), specific stock characteristics have historically led to bigger dividend increases: higher free-cash flow yield, higher revenue growth, and higher earnings per share (EPS) growth. Our stock selection process tilts towards these factors along with our assessment of management's dedication to dividend increases.

Income-Equity Had More Dividend Increases

Percent of Holdings Declaring Dividend Increases



■ Income-Equity
 ■ Income-Equity (no MLPs)
 ■ Russell 1000 Index
 ■ Russell 1000 Index Dividend Payers

As of December 31, 2024. Sources: LSEG Workspace; Bloomberg; Miller/Howard Research & Analysis. For the numerator, the number of holdings that declared an increase during the period. For the denominator, the average number of holdings as of each quarter-end for the period. Holdings with multiple increases are only counted once. Russell 1000 dividend payers paid a dividend in the prior 4th quarter. Increasers (decreasers) had a 4th quarter dividend higher (lower) than the previous year's 4th quarter dividend. Semi-annual payers were included if a dividend was paid in the second half of the prior year, and were included but analyzed using full year dividends. Specials were excluded.

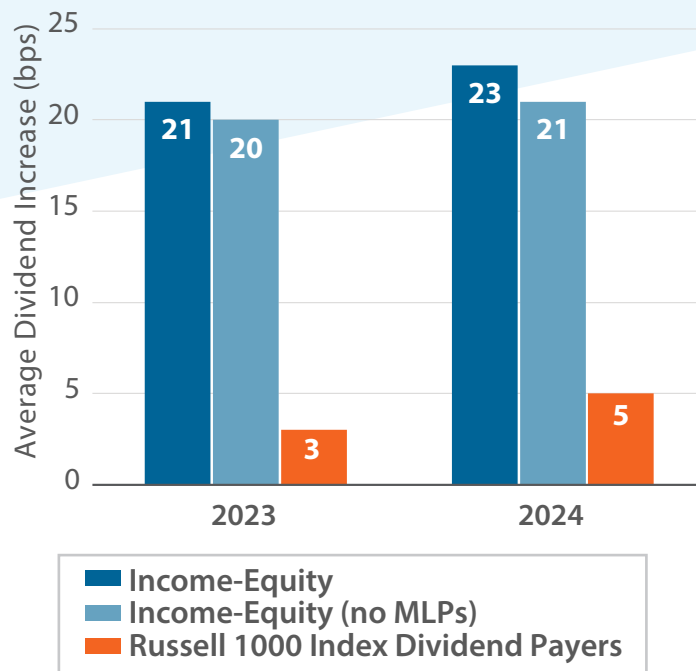
Income-Equity *(continued)*

Looking Ahead

Both versions of Income-Equity outperformed the Russell 1000 Value Index for the fourth quarter and for 2024, but they trailed the broad market for both the quarter and the year. After a hiatus in the third quarter, mega-cap growth stocks surged ahead again to end the year, stretching valuations for the market as a whole. Our view is that large-cap growth stocks are buoyed by overly optimistic long-term forecasts. In our opinion, valuations for Income-Equity holdings are supported by much less demanding long-term forecasts. The average forward price/earnings ratio is lower at 15.2x (versus 21.4x for the Russell 1000) and dividend yields are higher at 3.6% and 3.4% for the with and without MLP versions, respectively (versus 1.4% for the Russell 1000).

See more about
Income-Equity
on page 3.

Income-Equity Had Much Larger Dividend Increases



As of December 31, 2024. Sources: LSEG Workspace; Bloomberg; Miller/Howard Research & Analysis. Russell 1000 dividend payers paid a dividend in the prior 4th quarter (adjustments were made for semi & annual payers). For our Income-Equity portfolios, we considered names we held during the calendar year. To calculate basis point change, we subtracted the holding's prior calendar year fourth quarter dividend (multiplied by four) from the current calendar year fourth quarter dividend (multiplied by four) and then divided the result by the prior calendar year end price. Specials were excluded from our calculations.

Portfolio Highlights

- **Dividend increases:** Income-Equity (both with and without MLPs) had six dividend increases in the fourth quarter, including **MSC Industrial Direct (MSM)**, **Entergy (ETR)**, **AbbVie (ABBV)**, **Merck (MRK)**, **Royal Bank of Canada (RY)**, and **Edison International (EIX)**.
- **Special Dividends:** Three holdings announced special dividends in the quarter, including **Lamar Advertising (LAMR)**, **Host Hotels & Resorts (HST)**, and **Old Republic International (ORI)**.
- **Exited positions:** We sold our position in **MSC Industrial Direct (MSM)** following growth in both income and dividends that was below our expectations. We exited our positions in **Mid-America Apartment Communities (MAA)** and **Camden Property Trust (CPT)**, viewing the two apartment REITs as fairly valued and finding better opportunities elsewhere. We sold our remaining position in **LyondellBasell (LYB)** over concerns that weak business trends were putting its dividend at risk.
- **New buys:** We initiated a position in **GSK (GSK)**, a global pharmaceutical company with growing revenue and a well-covered dividend. We bought **US Bancorp (USB)**, attracted by its high level of fee revenue, making it less sensitive to interest rates and economic fluctuations, in our opinion. Lastly, we added utility company **Edison International (EIX)**, and expect it to benefit from strong load growth and a discounted valuation.

Yield, Growth, Strength, Stability

- Our Income-Equity portfolios each offer a high dividend yield that is over 2.5x the yield on the S&P 500 Index, and have ample dividend coverage and reasonable leverage levels (net debt/EBITDA).
- Both portfolios trade at a significant discount to the broad market on price-to-earnings as well.
- We believe the portfolios are well-positioned for dividend growth throughout the full market cycle.

Income-Equity (with MLPs)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Income-Equity Yield	4.2	4.7	4.0	3.7	4.3	3.7	3.6	3.3	3.6	3.7	3.6
S&P 500 Yield	2.0	2.2	2.1	1.9	2.2	1.9	1.5	1.5	1.8	1.5	1.3
Ratio	2.1x	2.2x	1.9x	2.0x	2.0x	2.0x	2.3x	2.2x	2.0x	2.4x	2.7x
Income-Equity Projected Dividend Growth*	7.5	5.8	5.0	6.3	7.8	7.3	5.1	6.0	6.1	5.5	5.5
S&P 500 Projected Dividend Growth**	4.7	4.2	4.0	4.2	5.2	4.2	3.3	5.9	4.8	4.5	5.3
Ratio	1.6x	1.4x	1.2x	1.5x	1.5x	1.7x	1.5x	1.0x	1.3x	1.2x	1.0x
Income-Equity Dividend Coverage Ratio	1.3x	1.3x	1.3x	1.5x	1.9x	2.3x	2.1x	2.0x	2.7x	2.1x	2.1x
Income-Equity Net Debt/EBITDA***	4.2x	2.8x	2.0x	1.9x	1.4x	1.9x	1.9x	1.2x	2.0x	1.8x	1.5x
Income-Equity P/E Ratio Trailing	16.4	14.2	17.2	17.7	12.6	12.8	16.7	14.0	13.6	14.5	15.2
S&P 500 P/E Trailing	18.4	18.8	20.5	21.7	16.5	21.6	27.6	24.1	18.6	21.9	24.7
Premium/Discount	-10%	-24%	-16%	-18%	-23%	-41%	-40%	-42%	-27%	-34%	-38%

Income-Equity (No MLPs)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Income-Equity (No MLPs) Yield	4.0	4.6	3.9	3.7	4.2	3.6	3.5	3.2	3.5	3.4	3.4
S&P 500 Yield	2.0	2.2	2.1	1.9	2.2	1.9	1.5	1.5	1.8	1.5	1.3
Ratio	2.1x	2.1x	1.9x	2.0x	2.0x	2.0x	2.3x	2.1x	2.0x	2.2x	2.6x
Income-Equity (No MLPs) Projected Dividend Growth*	7.7	5.9	5.0	6.4	7.9	7.5	5.2	6.0	6.0	5.6	5.3
S&P 500 Projected Dividend Growth**	4.7	4.2	4.0	4.2	5.2	4.2	3.3	5.9	4.8	4.5	5.3
Ratio	1.6x	1.4x	1.2x	1.5x	1.5x	1.8x	1.5x	1.0x	1.3x	1.2x	1.0x
Income-Equity (No MLPs) Dividend Coverage Ratio	1.3x	1.3x	1.3x	1.5x	1.9x	2.3x	2.1x	2.0x	2.8x	2.3x	2.3x
Income-Equity (No MLPs) Net Debt/EBITDA***	2.6x	2.6x	2.2x	2.1x	1.4x	1.9x	1.9x	1.2x	1.8x	1.6x	1.4x
Income-Equity (No MLPs) P/E Ratio Trailing	17.2	16.5	18.2	18.0	12.9	13.5	16.8	14.0	13.8	14.6	15.3
S&P 500 P/E Trailing	18.4	18.8	20.5	21.7	16.5	21.6	27.6	24.1	18.6	21.9	24.7
Premium/Discount	-6%	-12%	-12%	-17%	-22%	-38%	-39%	-42%	-26%	-33%	-38%

As of December 31, 2024. Sources: Bloomberg; S&P; Miller/Howard Research & Analysis. The data above are based on representative accounts in our Income-Equity portfolios both with and without MLPs and are subject to change. Median P/E ratio trailing is published for our Income-Equity portfolios. * Projected Dividend Growth—Miller/Howard Portfolio Team's 3-year annualized projected dividend growth based on data from various sources, adjusted to reflect our view of future economic and market conditions. There is no assurance projections will be realized.

** Bloomberg Dividend per Share 3-year forward estimates.

*** Excludes financials.

Dividend yields shown for Miller/Howard portfolios exclude cash. All data are as of year-end, unless otherwise noted.

Common stocks do not assure dividend payments. Dividends are paid only when declared by an issuer's board of directors, and the amount of any dividend may vary over time. Dividend yield is one component of performance and should not be the only consideration for investment. See definitions and full disclosure on last page.

Income-Equity Leaders and Laggards

INCOME-EQUITY (with MLPs)

INCOME-EQUITY (without MLPs)

LEADERS ◊

Jefferies Financial Group: In line quarterly results. Higher quality advisory revenue grew +77% y/y and was ahead of expectations; less dependable trading revenue was +15% versus consensus; underwriting was weak. New administration might mean fewer merger challenges, and the investment backing advisory business may benefit if there are more deals.

Goldman Sachs: Beat on both EPS and revenue, driven by strength of core business lines. New administration might mean fewer merger challenges, and more deals may benefit the investment banking advisory business.

JPMorgan Chase: EPS beat was driven by expense control and net interest income; strong return on tangible common equity. Credit trends remain strong. Management guided higher.

Gilead Sciences: Beat on both EPS and revenue on strength of HIV drugs, but recent new drug pipeline disappointments weigh on stock.

East West Bancorp: Beat on EPS as assets grew and net interest margins (NIM) declined less than expected; credit was stable.

LAGGARDS ◊

Coca-Cola: Beat on revenue despite case volume decline (gross margins improved); beat on EPS. Management guided for higher revenue, but the strong USD will pressure EPS.

Johnson & Johnson: Generally, in line quarter with strong pharma and weak devices business segments; US strong and Asia weak. Newly off-patent Stelara sales declined less than expected, but JNJ is facing in-cresed competition in 2025—before its replacement drug sales can fully ramp up to replace Stelara’s lost revenue. New administration increases uncertainty in the drug business.

AbbVie: Good quarterly results as Skyrizi and Rinvoq strength offset Humira decline. Disappointing Phase 2 schizophrenia test results for emraclidine did not meet primary endpoint. New administration increases uncertainty in the drug business.

Medtronic: Slight beat on revenue and EPS; lower end of guidance range was raised. Investors are wary of management’s guidance of a second-half 2025 turnaround.

LyondellBasell: Weak quarterly results; management warning of near-term softer demand and rising input costs hurting margins. Investors questioning returns on molecular recycling capex.

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LAGGARDS ◊

Coca-Cola: Beat on revenue despite case volume decline (gross margins improved); beat on EPS. Management guided for higher revenue, but the strong USD will pressure EPS.

TotalEnergies: In line quarterly results; refining and chemicals were weak, and management guided to more of the same near term.

Johnson & Johnson: Generally, in line quarter with strong pharma and weak devices business segments; US strong and Asia weak. Newly off-patent Stelara sales declined less than expected, but JNJ is facing in-cresed competition in 2025—before its replacement drug sales can fully ramp up to replace Stelara’s lost revenue. New administration increases uncertainty in the drug business.

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◊ By contribution to return. To obtain our methodology for calculating the best- and worst-performing securities, as well as a list of the contribution to performance of each security listed, please call us at 845.679.9166. The holdings identified do not represent all of the securities purchased, sold, or recommended for advisory clients. This list is not a recommendation to buy, sell, or hold these securities.

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